Indian Institute of Management Bangalore
Bengaluru, India

IIMB
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JUNK BONDS

Info Edge India Ltd. (INFOE IN)

With market leadership position in three major classified categories- recruitment (Naukri.com), real estate (99acres.com) and restaurant discovery (Zomato.com), Info Edge (INFOE), is in a good position to leverage the advantage it has built over the years. Furthermore, dominant position in the newly ventured and fast- growing food ordering segment (Zomato Order), company is well poised to reap benefits from its investment in near to medium term.

INFO EDGE
INFO EDGE (INDIA) LTD.

BUY

CMP: INR 1192.25

Recommendation and Price Target	
Current Reco.	BUY
Current Price Target (12M)	1,450
Upside/(Downside)	22%

Key Data – INFOE IN	
Current Market Price	INR 1192.25
Free Float	52%
Shares in issue (mn)	116.9
Diluted share (mn)	120.9
3-mon avg daily val (mn)	INR 75.2/US$0.1

Price Performance			
%	1M	6M	12M
Absolute	2.4	-2.7	15.7
Relative*	-1.4	-16.3	-2.9

- **Naukri-scaling insurgency:** INFOE's recruitment portal drives most the company's revenues and clearly forms the core business for the company, because it could build and leverage advantage of network effects. Continuous innovation and investment in the portal has led to Naukri sustain its market leadership over the years. Company's flagship recruitment portal captured c.70% of the total associated traffic share as of FY16. Due to its ever-increasing user base, the company is in a position to leverage the advantage it has built over the years by charging higher price from the recruiters on its platforms.

- **99 acres-Naukri in the making:** The nascent and untapped real estate classified market has attracted many players in this space which is reflected in the growing competition in the sector. With a potential to be an INR10bn market opportunity, it is one of the fastest growing classified vertical. INFOE is right on track to seize this opportunity and sustain competition though their competent war chest of USD 12m and increased focus on quality of listings that differentiates itself from its peers in the space.

- **Zomato-growth multiplier:** In a highly underpenetrated (<2%) and rapidly growing food ordering market (est. to be USD 15bn market), Zomato Order has emerged to be a leading player in the space. Zomato's revenue from online food ordering grew 7x YoY for FY17 with monthly order volume clocking 2.1mn. However, this just represents the tip of the iceberg, as the total opportunity is massive compared to GMV of meagre USD300mn in FY16 in online food ordering. Furthermore, I estimate Zomato to break-even and post positive earnings in the next 12months. Favourable demographics that support the growth of the overall market coupled with Zomato being an early mover in this space, INFOE is expected to benefit healthy returns from its c.INR 4838m investment in the platform.

- **Valuation**: The growth in Naukri's standalone business should drive ~18% CAGR revenue over FY18-20E.The SOTP based valuation justifies a price of INR 1,060/- over the next 12months with INR 583 for Naukri, INR 87 for 99acres and INR 230 for Zomato. The CMP of INFOE is c.850, which implies an upside of ~22%. Also, I believe the potential of Zomato to report positive earnings and eventually go public could further improve valuations substantially

Financial Summary					(INR mn)
Y/E March	FY15A	FY16A	FY17E	FY18E	FY19E
Net Sales	6,113	7,235	8,284	9,729	11,722
Sales Growth (%)	20.8	18.3	14.5	17.4	20.5
EBITDA	1,814	1,580	2,635	3,129	3,702
EBITDA Margin (%)	29.7	21.8	31.8	32.2	31.6
Adjusted Net Profit	1,939	1,416	2,677	2,629	3,065
Diluted EPS (Rs.)	16.1	11.7	22.1	21.7	25.3
Diluted EPS Growth (%)	37.1	-27.4	89.1	-1.8	16.6
ROIC (%)	0.0	147.4	114.9	147.5	174.0
ROE (%)	16.0	8.3	14.3	12.6	13.3
P/E (x)	53.4	73.5	38.9	39.6	34.0
P/B (x)	6.1	5.9	5.3	4.8	4.3
EV/EBITDA (x)	48.9	57.5	34.1	28.0	23.1
Dividend Yield (%)	0.3	0.3	0.5	0.5	0.5

Source: Company data

Naukri

Info Edge's (INFOE) flagship brand- naukri.com is India's leading online recruitment platform with c.70% of the traffic share for FY16 and I believe is one of the key drivers of growth for the company. First launched in 1997, Naukri is perceived to be the cash cow for INFOE, although the portal continues to drive significant revenues and earnings for the company. Continuous effort and investment in product development and marketing has helped the platform reach c.50 million resumes on its portal as of FY17Q3. More recently, INFOE has forayed into the Middle East market through naukrigulf.com and introduced slew of new products such as an offline executive search site and a hiring site for freshers. This continued product enhancement helps Naukri maintain its market share and pricing power.

Drivers of growth

a) Continuous innovation and investment

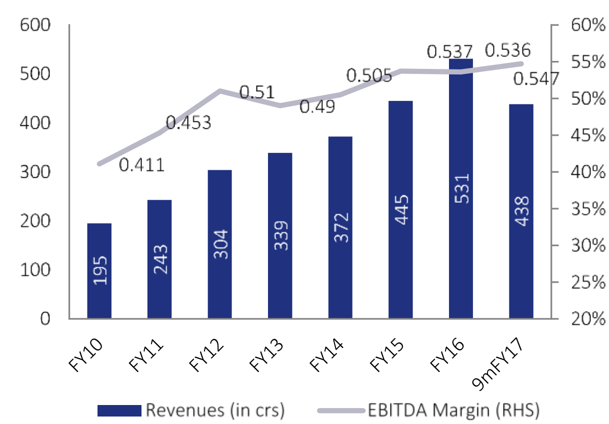
1) Newer products /Additional Features: Naukri has continuously innovated and invested in tools like career site manager, Naukri fast forward, referral tool and recruiter profiles that add value for users on both side of the spectrum. Also, initiatives like e-hire, Naukri premium and cloud solutions further help drive the demand for the portal 2) Semantics: Naukri is differentiating itself from its competitors by investing in analytics for better matching and improved experience. These aids in driving

willingness to pay for its users 3) Channels: With c.63% of the total sessions through mobile devices, Naukri was early to identify the shift in consumption and developed mobile applications and HTML5 site.

b) **Pricing power**

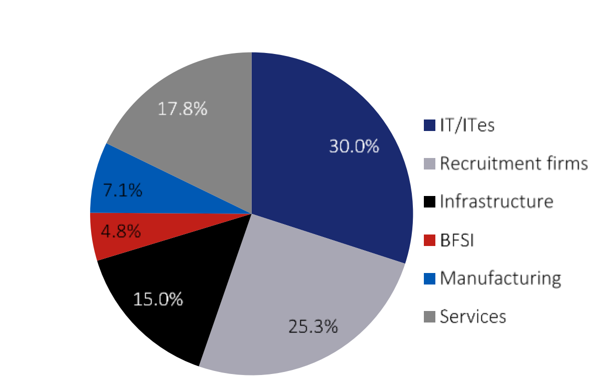
Being an early mover in the online recruitment space, Naukri could build a large base of patrons initially due to lack of competition and later due to stickiness of the platform. From 27500 unique visitors for FY07, Naukri served 61000 unique visitors for FY16. Due to its ever-increasing user base, the company is in a position to leverage the advantage it has built over the years by charging higher price from the recruiters on its platforms. Recruiters are more likely to adapt to this change and we believe there will be insignificant churn due to their high dependency on the platform

Exhibit 1. Recruitment solutions' revenue and EBITDA margins



Source: Company

Exhibit 2. Break-up of revenue by industry



Source: Company

99 acres

Online real estate classified business is one of the fastest growing segment in the country. 99acres.com happens to be one of India's preferred online real estate platforms. The current infusion of funds into other online real estate platforms has intensified the rivalry in the space with all players eyeing the potential INR 10bn market. Given the potential size of the market, I believe it is not a winner-takes-all market and can easily accommodate 2-3 major players. 99acres happens to be in a good position to make it into the top 3 spot due to its strong parentage and early entry.

Drivers of growth

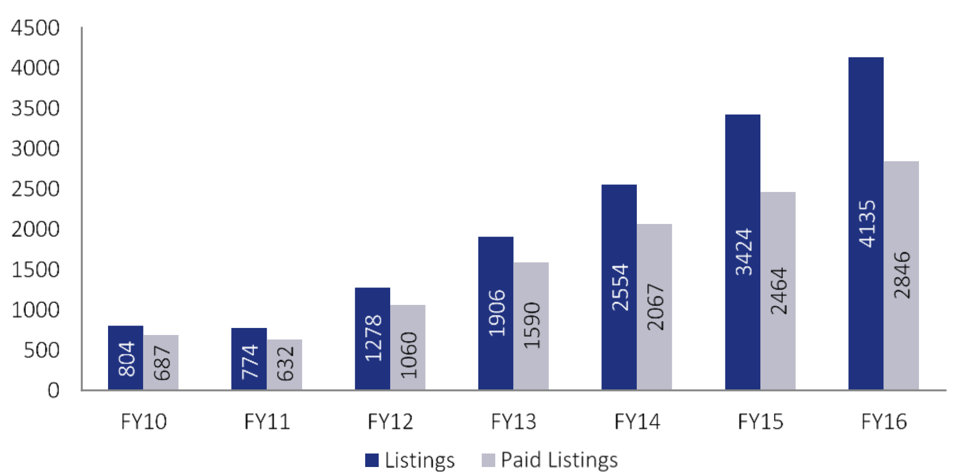
a) **Differentiators**

INFOE last raised USD125m from QIP specifically with the desire to tackle and sustain competition in the industry. This competent war chest enables it to utilise funds to maintain its market position through cash burn if required. Furthermore, it is able to leverage its deep relations with brokers it has built over the years. Also, its focus on quality of listings than volume helps it differentiate from peers at the same time attracting significant user base.

b) **Product offerings**

Innovating and investing in its product offerings has work well for company's recruitment portal Naukri. INFOE is adopting similar approach for 99acres. It has acquired a design studio that develops proprietary technology for verification of listing, revamped its design for mobile and desktop sites, enhanced its map based search feature and continuously expanded coverage of 3D plans.

Exhibit 1. Increasing user base over the years



Source: Company

Zomato

Zomato is one of the leading food-tech players in India. As of 2016, the company has presence in 23 cities across the globe with clear market leadership in India and the UAE. Zomato started off as a platform for online discovery of restaurants and generated revenue through its classified business. More recently, the company has forayed into the growing its online food delivery business through the ordering platform “Zomato Order”.

Drivers of growth

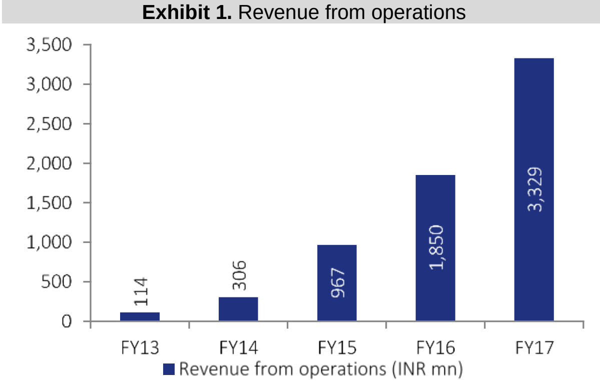
a) Network Effects

Zomato entered the food delivery market only in 2015. However, Zomato’s leadership as a restaurant aggregator gives it a unique advantage over competitors even in the ordering space. As per the company, it has c.10x the traffic compared to all competitors put together. The fact that only 2% of its monthly unique users order online gives it a large under-penetrated captive user base to leverage on. Also, being early into this space, the platform was able to get on board many restaurants with an exclusivity clause. About 40% of the restaurants listed on Zomato are exclusive to it.

b) Solid financial performance

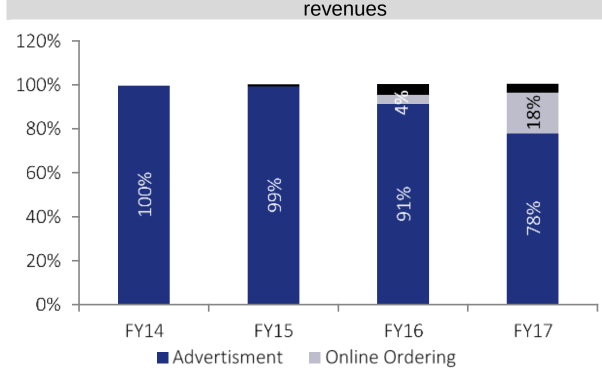
Despite a late start, Zomato’s food ordering revenues grew 7x in 2017 to USD 9mn. The company has already reached a monthly order volume run-rate of 2.1mn by Mar’17. Furthermore, the company’s sustained revenue growth (80% YoY), especially in food ordering segment, despite an 81% decrease in annual operating burn (USD 12mn—FY17 vs. USD 64mn—FY16), reflects increased user retention and frequency that tags along with

Exhibit 1. Revenue from operations



Source: Company

Exhibit 2. Increased share of online ordering in operating revenues



Source: Company

Exhibit 6. Zomato funding and valuation till date

Date	Fund raise	Valuation (USD mn)	Investors	INFOE's investment (USD mn)	INFOE's stake
10-Aug	1		Info Edge	47	
11-Sep	3		Info Edge	182	
12-Sep	2.5		Info Edge	310	48.50%
13-Jan	10		Info Edge	860	57.90%
13-Nov	37	161	Sequoia/Info Edge	1,430	50.10%
14-Nov	60	660	Vy Capital/Info Edge/Sequoia	3,272	50.10%
15-Apr	50	700	Vy Capital/Info Edge/Sequoia	4,830	50.10%
15-Sep	60	1000	Temasek/Vy Capital	4,838	47.00%

scale. The monthly cash burn for Dec`16-Mar`17 was south of USD 250k compared to USD 4.2mn during March last fiscal.

Key risks

a) Competitive risk

Competition is inevitable and happens to be one of the key risks for the company across its various verticals. For 99acres, significant funding for competitors poses a key risk. The new players in the market would try to challenge INFOE's platforms' leadership position and it would be interesting to witness how the competitive landscape unfolds. However, as said earlier, I believe market is huge to be dominated by a single player and 99acres has the bandwidth to make it into the top 3 positions in the sector.

Nascent industry with no clear leader coupled with associated tailwinds has attracted best of the players to venture into the fast-growing online food delivery space. Moreover, existing restaurant chains are also realising the growth opportunities that come with the structural shift and developing their independent platforms for food ordering. But the Indian food-tech industry is significantly large for a player to dominate and hence not a winner takes all market. It could easily accommodate 2-3 large players in the sector and help them grow healthily. Also, the entry of new and existing large players will only help the market to grow in size and increase the overall pie.

b) Higher churn rates

Naukri has gradually built a huge base of recruiters and job seekers on its platform over the years. Hence, like every other marketplace model, the platform has benefited from the network effects. Hence, Naukri is now in a position to leverage its position to charge higher rates to the recruiters on its platform. This may however lead to recruiters moving away to other platforms. This is more unlikely because of the huge pool of job-seekers that Naukri commands and dominant position of its platform in the market.

For Zomato, as the company scales and helps in generating better revenues for its restaurant partners, it is imminent that it will not stick to existing commission rates. However, the rise in commission rates might lead to a significant number of restaurant churn. Again, the above is not likely for a number of reasons. Firstly, already a number of restaurants depend on Zomato for major portion of their orders. Thus, the company can leverage the same to its advantage by charging higher commission rates. Secondly, the restaurants' business models help them enjoy high margins. Thus, it is unlikely that these partners would risk losing out on significant orders for nominal loss on margins. Thirdly, Zomato is a market leader, when it comes to restaurant listing and discovery service. The company provides all-round visibility for such restaurants and thus they would not risk losing out to other restaurant chains in this highly competitive industry.

c) Industry headwinds

Softening IT industry which contributes towards the majority of Naukri's revenue might impact platforms' ability to generate revenues at a healthy rate and derail its growth. But, the company was early to sense its over-dependency on one sector and has emphasized on diversifying into other growing sectors like BFIS and auto that helps mitigate any associated risks.

Also, change in consumer preference causing them to order less or prefer ordering through telephone might adversely impact the Zomato's expectation of future earnings. Zomato on its order platforms also provides an option to reach out to the restaurants through telephone, wherein the company loses on the commission revenues. Also, increase in consumer preference for Dine-Out rather than Ordering-In will further hamper the company's growth. However, we see the above is unlikely to happen as consumers get cash-rich and time-poor.

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Cochin Shipyard Ltd. (COCHIN IN)

BUY

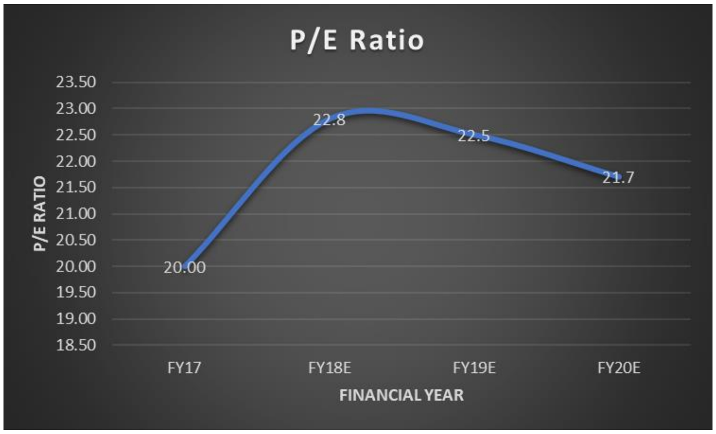
CMP: INR 562

Cochin Shipyard Ltd. is a Government of India enterprise, based in Kochi, India. It is the largest and the most stable shipbuilding and maintenance facility with an expertise in design and engineering. The company provides its services to both defense and commercial shipbuilding companies.

The strategy of the company has been to shift its business mix towards ship repairs which is more profitable as compared to the shipbuilding business. The company is also expected to bag the order for the indigenous aircraft carrier. With the capital investment to build a larger size of the repair facility, the company is well prepared for the higher demand in the coming years. This will also help the company to service to orders which it had to refuse due to utilization of full capacity in FY 2017.

With the Govt. of India initiative to promote inland waterways and coastal transportation, the shipbuilding industry in India will see a huge demand from the commercial sector. The company is also seen as a natural beneficiary of the critical projects of Government.

The revenues of the company are expected to increase by 16% in the coming financial years as a result of the growing shipbuilding industry in India. EBITDA is also expected to grow at a pace of around 15% however the margins may decline. Profit after tax is expected to grow at a rate of 8.5% while the return of capital may improve to 18%.



Dalmia Bharat Ltd. (DBEL IN)

Dalmia Bharat Group

BUY

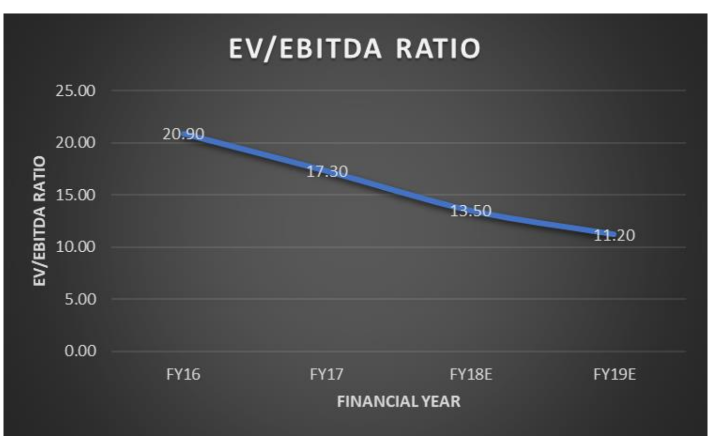
CMP: INR 2891

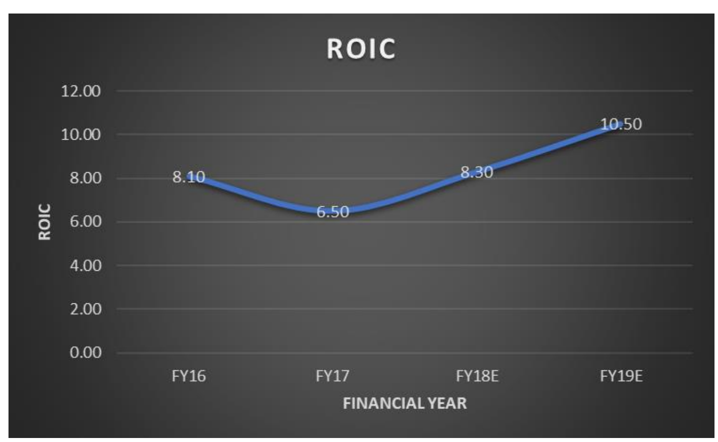
Dalmia Bharat Ltd. is the holding company of Dalmia Cement Bharat Limited and is promoted by the Dalmia Group which is also present in power sector, sugar industry and electronics.

The company expects to close the merger with OCL by March 2018 with the approval of NCLT. The company has improved the cost efficiency and boasts strong fundamentals and balance sheet. The sand mining issue that the company faces in the Bihar state of India may be resolved by December. The company has also saved a lot on freight costs reflecting the digitization initiatives of the company which is set to improve costs in the future as well.

The industry is expected to grow at the rate of 5-6% while the company is expected to grow at above-industry volume of 9.2%. The company is expected to gain presence in market of North India and East India. With the increased capacity at Belgaum, the company is ready to cater to the increased demand in the region. The cement prices are also expected to improve by January 2018.

The return on invested capital is expected to increase from 6.5% in FY 17 to 10.5% in FY 19. The return on capital may increase from 5.5% in FY 17 to 9.3% in FY 19. The company is also expected to maintain the capital expenditure for maintenance of INR 800 million.





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Modison Metals Ltd. (MODM IN)

BUY

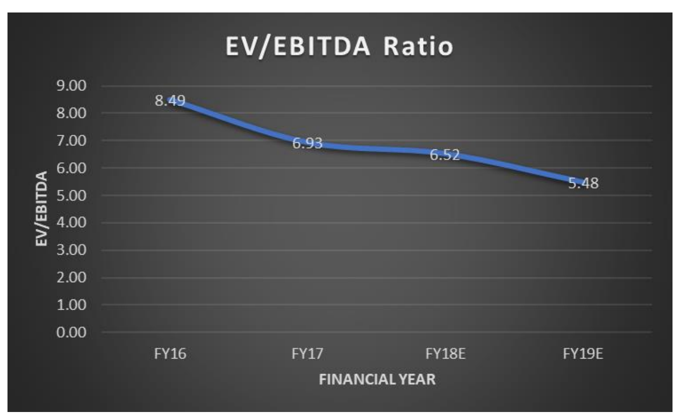
CMP: INR 75.90

Modison Metals Ltd., based in Mumbai, India, is one of the leading manufacturers of electrical contacts for low, medium and high voltage switchgear industries. The company has a diversified customer base in the Indian market as well as internationally.

The strategy of the company has been to focus on R&D and new product development. The company's R&D is centered around the development of 'Silver Powder' which would help them gain leverage in the growing renewable energy market across the world. The company has proved its mettle in R&D with the development, scale up and production of 'Silver Salts' within six months.

The diversified customer base across industries like fine metals, electroplating and life sciences has helped the company to benefit in the high-voltage segment. The company will soon have access to the North American market as the quality of its products is now established. With the appointment of a representative in Brazil, the company will be soon gain markets across Brazil and other Latin American countries.

The Indian market has been attractive again with the ruins caused due to demonetization now fading. The electrical equipment industry is now growing at 3.5%. The production in the mining, manufacturing and electricity was around 5%. With the implementation of GST and other infrastructural projects like Smart City Initiative, Uday Scheme, Deen Dayal Upadhyay Gram Jyoti Yojana etc., the sector as well as the company can be seen as growing in the long as well as the short term.



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JUNK BONDS

JK Paper Ltd. (JKPAPER IN)

BUY

CMP: INR 126.00

JK Paper Ltd. is one of the leading paper manufacturing and marketing company based out of Delhi in India. The company boasts a wide product portfolio in office papers, packaging boards, printing and writing paper and specialty paper. It is also the market leader and exporter in the Branded Copier paper segment.

The company has recently launched new products like JK FAB Print, JK Carry and JK Dark Buff. The company also witnessed 5 times increase in the sales of JK Excel Bonds. The company has a strong distribution network and claims to be the largest paper distribution in the country.

The paper industry in India is expected to grow at the rate of about 7 percent as per the report of Indian Pulp and Paper Technical Association. As per various research reports, it has been estimated that paper consumption grows exponentially as GDP of the country increases. The North American market provides a huge growth potential due to increasing demand of cheap paper from India and China.

The company has invested about INR 17750 million to expand and modernize its facilities and bought state-of-the-art equipment. The return on capital is set to increase to 20% while the margins are also expected to improve. The company is expected to decrease the leverage and reduce risks of bankruptcy. The return on equity is also expected to increase to 15%